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BOOK REVIEWS

Railroad Valuation by the Interstate Commerce Commission. By Homer B. Vanderblue. Cambridge, Harvard University Press, 1920. pp. 119.

A new book on Valuation is no novelty in these days, but Professor Vanderblue's *Railroad Valuation by the Interstate Commerce Commission* is novel in that it does not attempt to promote any pet theory of the author, but is a comprehensive review and digest of the official reports of proceedings before the Commission and of briefs filed with them, together with the author's comments thereon.

Introducing the book by referring to the Transportation Act of 1920, the author sums up the matter in a single happy phrase, "From a rule of negation designed to protect the railroads from 'confiscation' an affirmative program has been evolved" (p. 1).

Passing on to the subject-matter of the book, the author says, "The skeptic who characterized the Railroad Valuation Amendment to the Interstate Commerce Act as legislation which attempted to achieve the impossible, has, *prima facie*, been discomfited" (p. 7).

Current literature has been ignored, happily for the most part. It is perhaps to be regretted that such exclusion is so rigid that no reference is made to the very complete and forceful presentation of the matter contained in the report of the Committee of the American Society of Civil Engineers and printed in their *Transactions for 1917* as paper 1401.

The Commission's Reproduction Hypothesis is treated at length, and criticism of the method is reserved generally for the final section on Value.

In dealing with Depreciation, the author's comments are, on the whole, favorable to the work done by the Bureau of Valuation in finding Depreciation itself, although severely critical of the logic used. He states that "the carriers have quite justly maintained that the Commission has enunciated a definition in terms of worth, or value, only to report figures in terms of loss of service units, or of the exhaustion of 'capacity for service'" (pp. 46, 47).

The author did not go on, as he might well have done, and point out that when the Bureau of Valuation expresses the *equivalent* of depreciation in terms of dollars, in its so-called "Cost of Reproduction Less Depreciation," it ignores the vital factor of time and the earning power of the very dollar which it uses as a unit of measure. Instead of finding the present service value of the depreciated unit of property, the Commission sets up a theoretical figure, based upon the wrong hypothesis that the cost of restoring the portion of service life which is gone, is due and has to be met to-day, when in fact it will not have to be met until some time in the future, more or less distant.

This it does through the application of the so-called "Straight Line Theory" and it may be that the author had this in mind when he says, "The adequacy or inadequacy of past accounting methods are not in question, tho it is conceivable that they may raise ethical rather than economic questions" (p. 51). To illustrate: Assume a locomotive cost \$50,000 and has twenty years of life. The method of setting up depreciation adopted by the Bureau of Valuation is to charge off 5%, or \$2,500, per year, with the idea that this will amount to \$50,000 at the end of twenty years. As a matter of fact, if such a sum of money were set aside in a savings bank drawing interest at 4% compounded quarterly, it would amount to much more than \$50,000 when the time came to replace the locomotive. If, instead of being placed in a savings bank, it were invested in bonds of the company at a higher rate of interest, the amount would be still greater. The proper rate of depreciation should be that which compounded semiannually at

say 5% would amount to the principal sum at the end of twenty years. This instead of being \$2,500 would be something nearer \$1,000.

The Commission's finding as to the Value of Land is stated by the author to be "a conscious attempt to apply *dicta* expressed by Justice Hughes in the Minnesota Rate Cases" (p. 53). In criticism he says, "If there is one thing that opinion did *not* do, it was to reach any decision explicitly about land. It condemned what had been done; but it proposed no substitute program . . ." (p. 53). "The truth would seem to be that Justice Hughes (following the example of Justice Harlan in *Smyth v. Ames*) discussed phases of the problem, and decided nothing except in terms of disapproval" (p. 68).

The author argues at some length for "Cost" as the proper measure of Railroad Land, although he admits that the so-called "unearned increment" in railroad lands is "comparable to the 'unearned increment' accruing in the rent of sites devoted to other than railroad purposes" (p. 71). The argument is of little convincing force and the logic seems to be faulty, unless the author is willing to accept in full the theory held by some that land is a natural element which should be used solely for the benefit of the community and never for private gain.

In his chapter on "Cost," the author brings out clearly that "Investment in the Property" is made just as surely when money which might legitimately be distributed in dividends is put back into the property, as when it is furnished from other sources.

In the chapter on "Final Value," the author points out that lowering the rates will not *necessarily* reduce earnings. In the Kansas City Southern Case, present rates are assumed to be correct and value is based on capitalizing the earnings, present and prospective, based on those rates, and the author condemns the reasoning which he calls arguing in "the vicious circle."

The author's argument throughout this whole chapter, like that in the chapter on land, is for "Cost" as the proper measure of Railroad Value, ignoring the fact that the data necessary to find "Cost" does not exist, because many records are missing and those which do exist were not kept in a way to divulge the cost to date or the so-called "investment." From this predicament the author offers no avenue of escape, but contents himself with a general condemnation of the attempt which the Commission has made to find a figure of Value in accordance with the mandate of law, implied at least in the Valuation Act, and required in the Transportation Act.

The principal value of the book will be found perhaps in its citations of the reports of hearings and of briefs filed with the Commission and the quotations made from them. These citations are very full and, as an index, are very helpful to the student of Valuation.

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The Young Man and the Law. By Simeon E. Baldwin. New York, The Macmillan Co., 1920. pp. 153.

It is not the object of the book, as the author states in his Foreword, either to induce any man to take up the law as his life calling, or to dissuade him from it. It is its object to state fully and plainly both the advantages and disadvantages of the legal profession in the United States, the opportunities which it offers and the risks which it involves, the conditions of success, and the chances of failure. The object of the book, as thus defined, has been successfully and admirably accomplished. The book is instructive and interesting. It is a book which was needed, and well worth the writing. That it has at last been written, and written by a man so well fitted to the task, is something we may congratulate ourselves upon. Its author, it is hardly necessary to say, is pecu-